THE RAILROAD WEEK IN REVIEW
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“Despite a tepid economic recovery and a difficult year in agricultural products, shortline volumes are up approximately five percent through September.” -- Len Kellermann, CSX

The CSX Short line conference isn’t till March, but it’s never too early so set the scene. The CSX shortline and regional railroad newsletter, *Interchange*, generally a 12-pager on heavy glossy stock -- chock full of tools you can use to enhance the CSX relationship. The latest issue cites one such tool: the Total Service Integration - Carload Service Initiative that CSX first undertook three years or so ago.

As for the shortline angle, same-railroad carloads are up solid single digits or better in coal, STCC 28 chems, paper and lumber, waste and equipment, and minerals. TSI is a big reason. Len Kellermann -- Director of Short Line and Regional Railroad Development -- writes:

> Short lines have embraced the TSI-Carload initiative. CSX appreciates the candid exchange of ideas we have had with specific short lines and with our Short Line Caucus Committee. Results are beginning to show: ASLRRA survey scores improved dramatically in 2012 and 2013; and most importantly, carload volume growth with interline and switch carrier partners is gaining momentum. Despite a tepid economic recovery and a difficult year in agricultural products, volumes with short lines are up approximately [5 percent through September]. These are strong results, and together we must sustain and continue to grow the business.

And for the next ten pages the Letter talks about customer successes, how to improve movement data accuracy and timeliness, an E-Business Workshop, and CSX-sponsored (and paid for) safety training. You can tell at a glance that the shortline contribution is meaningful to CSX, and that in many ways short lines are one huge CSX customer. The support we’re seeing here is simply an expression of CSX Core Value Number One: It Starts With the Customer.

The Twin Cities and Western Railroad has been in the middle of a running battle with local trolley planners who want to displace the freight line to a worse alignment. Finally, the grownups have arrived in the form of KlasRobinson Q.E.D., a Twin Cities market research firm, arguing that the TCW is a key player in the economic health of rural Minnesota.

The KlasRobinson study finds that the top 20 TCW customers *alone* generate more than $4 billion in combined annual sales and ship more some 40 percent of their production -- about $1.5 billion worth -- via the TCW. Seventeen of the top 20 shippers are rural Minnesota companies or agricultural cooperatives that utilize the railroad to reach markets in 39 U.S. states, seven Canadian provinces and four Mexican states. They ship a diverse array of products ranging from corn, soybeans, wheat, sugar and vegetables to ethanol, fertilizer, machinery, lumber, crushed rock, metals, plastics, fuel oil, and manufactured goods.

Together, these 20 companies employ an estimated 2,660 employees with combined annual wages of over $111 million. Over the past two decades, they have invested more than $500 million in production, processing and shipping facilities located along the existing TC&W rail line. “The magnitude of the direct impacts of Twin Cities and Western Railroad and its customers provides compelling evidence of the importance of the freight rail carrier to Minnesota's rural economy,” the report concludes.

TCW's role in the regional transportation picture has become more important as planning for the light rail project has picked up speed. Under federal law, the interests of freight rail operators and shippers must be considered in the development of passenger rail service. Mark Wegner, TCW President (and long-time WIR subscriber) says there's a reason for that federal policy. “It preserves freight rail transportation,” said Wegner. “But more importantly, it preserves thousands of jobs and millions of dollars of investment by rural businesses that rely on us to get their goods to market safely and cost-effectively.”

His railroad is an AAR Class III rail carrier based in Glencoe, Minn. It operates some 230 route-mile miles of track radiating out from from the Twin Cities to western Minnesota and eastern South Dakota, connecting with all Class I railroads and providing a gateway to world markets for its agricultural and manufacturing customers. Not something you want to degrade when the local commercial establishment has so great a stake in its success.

BNSF third quarter results are in. Merchandise carloads are down one percent vs. 3Q2012 and represent 28 percent of total units. Total conventional carloads straight from the bnsf.com website investors page come to 1.3 million, up four percent; intermodal units (boxes and trailers) added another 1.3 million units, up five percent.

The raw numbers on the website require a bit of manipulation to get at the merch carloads that are the feeder railroads’ bread and butter. You have to strip out coal, auto, intermodal and petroleum products -- this last comes out because most of it is in unit trains and the non-class I connections as a whole don't see much of it. Within the remaining merch group commodities, sand/gravel (frack sand goes here) and lumber were the only significant double-digit winners.

I think what we see here is the coming pattern of rail revenue-unit distribution: half intermodal, a quarter coal and a quarter everything else. Feedback from shortlines and shippers alike tells me dry-goods shippers have oriented their loading docks and procedures to 53-foot boxes to be loaded from one end. Trying to fit a side-loading boxcar in a setup like that will always be awkward at best.

Path of least resistance? Load a truck and let the trucking company put it on the train if they wish. Doing so preserves the custom pickup/delivery process that works best for truckers and customers; putting the boxes on a train for the long haul capitalizes on the batch-process efficiencies the rails do best. Bulk commodities like grains, aggregates, fertilizers, industrial chems and ethanol, lumber on center-beams, steel on flat cars, etc. will continue in carload service. But only as long as the RVC ratios work and cover equipment replacement cost.

Canadian National gets a nod from RBC Capital Markets analyst Walter Spracklin. He writes, “CN’s speed, efficiency and U.S. network may give the railroad giant an edge at a time when concerns of weaker coal volumes have hit other railroads. The Canadian rail operator's reliable service has helped it woo customers like Chrysler away recently from rival Canadian Pacific, saying, “My CN contacts emphasize that these contracts were won on service and geographic reach, not price” and that annual revenue growth should run to about 6.5 percent with for double-digit profit growth over the next two years, upgrading Canadian National to outperform.

Separately, CN President and CEO Claude Mongeau said on Monday that current forecasts call for western Canada crop production to be one of the largest harvests in history. Once again, Mongeau stresses supply chain collaboration and information sharing as essential to moving the crop efficiently. Forecasts call for some 66 million US tons-- call it 660,000 carloads. Says Mongeau, “The current grain crop is now forecast to be among the largest in history. This is very good news for all of us involved in the business.”

But it’ll take work, collaborating on “end-to-end throughput on a consistent basis. Prompt car loading in the Prairies, steady railway movements from the country to port, and efficient car unloading at port terminals will be critical to solid hopper car fleet velocity. All participants in the supply chain will have to up their game to move the crop to market on time, and on spec.” That includes CN’s non-Class I connections, and Mongeau reminds us the strong 2012 collaboration “between CN and its supply chain partners” bodes well for this fall.

Taking a slightly different tack, Cherilyn Radbourne of TD Securities in Toronto writes that CN “now defines service in a way that much more closely resembles how customers define service, which has helped CN strengthen its customer relationships and grow market share.” At the same time, there is still more focus on local service revenue/cost ratios (is there an echo in here?).

CN has long sported some of the best operating metrics in the industry and Cherilyn says they’re on the cusp of getting even better. “Car-miles per day, which is arguably the most comprehensive measure of productivity, are up an impressive 6 percent year-over-year through the first two months of Q3/13.”